



## Policy costing

### Bridging finance for state and territory governments to transition from stamp duty towards land tax

Party:

Australian Greens

#### Summary of proposal:

Under this proposal the Commonwealth Government would provide concessional loans to state and territory governments, excluding the Australian Capital Territory (ACT), to facilitate the replacement of the existing stamp duty on sales of residential and non-residential properties with a broad-based land tax.

From 1 July 2023, property acquisitions would not be liable for stamp duty, but would instead be liable for an ongoing land tax.

The Commonwealth would lend to state and territory governments any shortfall between the expected stamp duty and land tax revenue for each financial year. These loans would be made in advance. Interest rates on the loans from the Commonwealth Government to state and territory governments would be set at half of the Commonwealth's borrowing cost. State and territory governments would transfer any surplus land tax revenue to the Commonwealth Government until the loans are fully paid off.

The land tax rates would be set by state and territory governments at a level that would allow them to fully repay the loans from the Commonwealth Government by 30 June 2036.

Land tax would not apply to land owned by local, state or Commonwealth governments, pastoral leases, or native title or freehold title held by Aboriginal Land Councils.

## Costing overview

This proposal would not have an impact on the fiscal balance, the underlying cash balance or the headline cash balance over the 2019-20 Budget forward estimates period because the commencement date of the proposal is outside this period.

This proposal would be expected to have an ongoing impact beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications of the proposal over the period to 2029-30 is included at [Attachment A](#).

Departmental expenses associated with administering the proposal would not be expected to be significant and have not been included.

Consistent with Parliamentary Budget Office (PBO) Guidance 02/2015, as the proposal involves changes in the value of financial assets, the public debt interest (PDI) impact of the proposal has been included in the estimates.

The impacts on the fiscal, underlying cash and headline cash balances differ due to the treatment of the concessional loans from the Commonwealth Government to state and territory governments, and the flow of interest and principal payments back to the Commonwealth Government. Only the fiscal balance captures the estimates of expenses and unwinding income relating to the concessional loan discount, and only the headline cash balance captures the changes in loans issued and principal repayments. A note on the accounting treatment of concessional loans is included at [Attachment B](#).

This costing depends upon assumptions concerning the number of properties sold in future years and the value of these properties, which are highly uncertain and can vary significantly from year to year. There is also considerable uncertainty surrounding estimates of stamp duty revenue beyond the 2019-20 Budget forward estimates period, particularly for states that have experienced strong growth, and subsequently sharp falls, in property prices and transaction volumes in recent years, and some uncertainty around economic parameters such as the interest rate on Commonwealth Government bonds.

The PBO has not included any impacts on property prices or on the supply and demand of residential and non-residential properties as a result of this proposal due to the difficulty in estimating behavioural responses.

The 2009-10 Australia’s Future Tax System Review highlighted that a broad-based land tax is a more economically efficient tax than stamp duty. This implies that replacing stamp duty with a broad-based land tax would increase economic activity over the medium to long term. As tax revenue generally increases in line with economic activity, this would be expected to increase taxation revenue over time. As the timing and magnitude of the macroeconomic impact of the proposal are highly uncertain, the PBO has not included it.

**Table 1: Financial implications (\$m)**

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-	-	-	-	-
Underlying cash balance	-	-	-	-	-
Headline cash balance	-	-	-	-	-

- Indicates nil.

### Key assumptions

The PBO has made the following assumptions in costing this proposal.

- State and territory governments would agree to participate in the scheme.
- State and territory stamp duty revenue would increase at the average growth rate estimated using recent data and forecasts from state and territory governments.
  - If the growth rate is calculated to be negative over the 2019-20 Budget forward estimates period, then the growth rate beyond the 2019-20 Budget forward estimates period has been set to zero.
- On the first day of each financial year, the Commonwealth Government would issue bonds with value equivalent to the difference between the expected stamp duty and land tax revenue, and then immediately lend the money to state and territory governments in one lump sum.

- The proposed land tax would be payable, in arrears, on a quarterly basis. This results in less than a full year's worth of land tax being collected in the first year of the proposal.
- State and territory governments would pay the Commonwealth Government the interest charged on the outstanding loan balance when the Commonwealth Government is due to pay its interest expenses on the bonds issued to finance the loans.
- The number of residential properties sold in a state or territory is based on Australian Bureau of Statistics (ABS) data and would grow in line with the projected population growth rate of that state or territory.
  - The turnover rate for non-residential properties would be around 5 per cent per year, based on research published by the Reserve Bank of Australia.
- Property prices would grow in line with the average growth rate of the last 15 years.
- Over the period to 2029-30, approximately half of all existing properties are assumed to be sold at least once.
- The changes in state and territory governments' revenue as a result of the proposal would not affect the goods and services tax distribution amongst states and territories.

## Methodology

The expected stamp duty revenue for state and territory governments (excluding the ACT, as per the specification) over the period to 2035-36 was estimated using data from state and territory governments' budgets.

The values, types and numbers of properties (including new properties) sold in each relevant state and territory were calculated based on data from the ABS and the assumptions listed above for each year over the period to 2029-30. The properties in each relevant state and territory were sorted into deciles based on the overall land value and split between capital city properties and non-capital city properties.

These calculated property figures were then used to estimate:

- the amount of land tax revenue for each state and territory, based on the land tax rates that would allow state and territory governments to repay all of the loans from the Commonwealth Government by the end of the 2035-36 financial year
- the loan cash flows for each year, which were calculated as the amount of new concessional loans provided by the Commonwealth Government each year less any repayments from state and territory governments.

Interest, equal to half of the Commonwealth bond rate in the year the loan is made (as per the specification), was applied to the amount of loans outstanding at the start of each year.

All estimates have been rounded to the nearest \$100 million.

## Data sources

ABS, 2013. *Population Projections, Australia, 2012 (base) to 2101* (Cat. No. 3222.0), Canberra: Commonwealth of Australia.

ABS, 2019. *Residential Property Price Indexes: Eight Capital Cities* (Cat. No. 6416.0), Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2010. *Australia's Future Tax System Review*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2018. *Budget 2018-19*, Canberra: Commonwealth of Australia.

Department of Environment, Land, Water and Planning, 2015. *A Guide to Property Values – Statistics 2015*, Melbourne: State of Victoria.

Reserve Bank of Australia, 2017. *Housing Market Turnover – RBA Bulletin March 2017*, Sydney: Reserve Bank of Australia.

Taylor E., Wood G., Cigdem M., Ong R., 2012. *The spatial and distributional impacts of the Henry Review recommendations on stamp duty and land tax*, Perth: Australian Housing and Urban Research Institute.

Stamp duty forecasts were taken from the budget papers published by state and territory governments.

## Attachment A – Bridging finance for state and territory governments to transition from stamp duty towards land tax – financial implications

**Table A1: Bridging finance for state and territory governments to transition from stamp duty towards land tax – Fiscal balance (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
<b>Revenue</b>													
<i>Loan interest from state and territory governments</i>	-	-	-	-	300	600	800	1,100	1,200	1,300	1,300	-	6,700
<i>Income from unwinding concessional loan discount</i>	-	-	-	-	-	-	300	500	700	900	1,100	-	3,600
<b>Total – revenue</b>	-	-	-	-	300	600	1,100	1,600	1,900	2,200	2,400	-	10,300
<b>Expenses</b>													
<i>Concessional loan discount expense</i>	-	-	-	-	-2,700	-2,800	-2,500	-1,900	-1,400	-700	..	-	-12,000
<b>Total – expenses</b>	-	-	-	-	-2,700	-2,800	-2,500	-1,900	-1,400	-700	-	-	-12,000
<b>Total (excluding PDI)</b>	-	-	-	-	-2,400	-2,200	-1,400	-300	500	1,500	2,400	-	-1,700
<b>PDI impacts</b>	-	-	-	-	-600	-1,100	-1,700	-2,200	-2,500	-2,800	-2,900	-	-13,700
<b>Total (including PDI)</b>	-	-	-	-	-3,000	-3,300	-3,100	-2,500	-2,000	-1,300	-500	-	-15,400

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

**Table A2: Bridging finance for state and territory governments to transition from stamp duty towards land tax – Underlying cash balance (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
<b>Receipts</b>													
<i>Loan interest from state and territory governments</i>	-	-	-	-	300	600	800	1,100	1,200	1,300	1,300	-	6,700
<b>Total – receipts</b>	-	-	-	-	300	600	800	1,100	1,200	1,300	1,300	-	6,700
<b>Total (excluding PDI)</b>	-	-	-	-	300	600	800	1,100	1,200	1,300	1,300	-	6,700
<b>PDI impacts</b>	-	-	-	-	-500	-1,100	-1,700	-2,100	-2,500	-2,800	-2,900	-	-13,500
<b>Total (including PDI)</b>	-	-	-	-	-200	-500	-900	-1,000	-1,300	-1,500	-1,600	-	-6,800

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

**Table A3: Bridging finance for state and territory governments to transition from stamp duty towards land tax –  
Headline cash balance (\$m)<sup>(a)(b)</sup>**

	2019– 20	2020– 21	2021– 22	2022– 23	2023– 24	2024– 25	2025– 26	2026– 27	2027– 28	2028– 29	2029– 30	Total to 2022–23	Total to 2029–30
<b>Receipts</b>													
<i>Loan interest from state and territory governments</i>	-	-	-	-	300	600	800	1,100	1,200	1,300	1,300	-	<b>6,700</b>
<i>Loan principal repayments</i>	-	-	-	-	-	-	-	-	-	-	100	-	<b>100</b>
<b>Total – receipts</b>	-	-	-	-	<b>300</b>	<b>600</b>	<b>800</b>	<b>1,100</b>	<b>1,200</b>	<b>1,300</b>	<b>1,400</b>	-	<b>6,800</b>
<b>Payments</b>													
<i>Loans to state and territory governments</i>	-	-	-	-	-21,000	-17,900	-14,900	-11,400	-7,900	-4,100	-300	-	<b>-77,500</b>
<b>Total – payments</b>	-	-	-	-	<b>-21,000</b>	<b>-17,900</b>	<b>-14,900</b>	<b>-11,400</b>	<b>-7,900</b>	<b>-4,100</b>	<b>-300</b>	-	<b>-77,500</b>
<b>Total (excluding PDI)</b>	-	-	-	-	<b>-20,700</b>	<b>-17,300</b>	<b>-14,100</b>	<b>-10,300</b>	<b>-6,700</b>	<b>-2,800</b>	<b>1,100</b>	-	<b>-70,700</b>
<b>PDI impacts</b>	-	-	-	-	<b>-500</b>	<b>-1,100</b>	<b>-1,700</b>	<b>-2,100</b>	<b>-2,500</b>	<b>-2,800</b>	<b>-2,900</b>	-	<b>-13,500</b>
<b>Total (including PDI)</b>	-	-	-	-	<b>-21,200</b>	<b>-18,400</b>	<b>-15,800</b>	<b>-12,400</b>	<b>-9,200</b>	<b>-5,600</b>	<b>-1,800</b>	-	<b>-84,200</b>

(a) A positive number for the headline cash balance indicates an increase in receipts or a decrease in payments or net capital investment in headline cash terms. A negative number for the headline cash balance indicates a decrease in receipts or an increase in payments or net capital investment in headline cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

## Attachment B – Accounting treatment of concessional loans

A concessional loan is a loan provided on more favourable terms than the borrower could obtain in the financial market. The most common concession is a below-market interest rate, but concessions can also include favourable repayment conditions. The income contingent loans available through the Higher Education Loan Program are an example of concessional loans offered by the Commonwealth.

### Budget impact<sup>1</sup>

The accounting treatment of concessional loans differs across each budget aggregate. The underlying cash balance only captures actual flows of interest related to the loans. The headline cash balance captures actual flows of principal as well as interest. The fiscal balance captures accrued interest, the value of the concession and any write-offs related to the loans. The interest cost of financing these loans is captured in all budget aggregates, and is separately identified by the PBO.<sup>2</sup> (Table B1 provides information about the detail provided in a costing.) The provision of concessional loans decreases the Commonwealth Government's net worth if the liabilities issued (the value of Commonwealth Government Securities (CGS) issued to finance the loans) are greater than the assets created (measured at their 'fair value' or price at which the loans could be sold).

### Treatment of debt not expected to be repaid

All budget aggregates take into account estimates of the share of loans not expected to be repaid when calculating interest flows and estimating the value of the concession that is being provided. None of the measures capture the direct impact on net worth of the loans not expected to be repaid. If a portion of loans are not expected to be repaid, estimates of the 'fair value' of the loans outstanding will be reduced. Such reductions, both when loans are issued and if loans are subsequently re-valued, are recorded in the budget under 'Other economic flows' which are reflected in net worth but not in the budget aggregates.

**Table B1: Components of concessional loan financial impacts in costing proposals**

Budget item	Appears in	Comments
Interest accrued or received	All budget aggregates	Captures the interest accrued or expected to be received on the fair value of the debt. (The budget cannot include interest income on a debt that is not expected to be repaid.)
Concessional loan discount expense and unwinding revenue	Fiscal balance	The net present value of the concession (based on the difference between the market and concessional interest rates) is captured as an expense in the fiscal balance. As loans are repaid, the remaining value of the concession reduces, so this expense is 'unwound' with a positive impact on the fiscal balance. The concessional discount and its unwinding are not recognised in cash balances as there is no cash inflow or outflow.
Write-offs	Fiscal balance	Debt forgiveness, also known as mutually agreed write-downs (for example in the case of the death of the borrower of a HELP loan) are expensed when they occur, reducing the fiscal balance. These transactions do not affect the cash balances as no cash flows occur.
Initial loan; principal repayments	Headline cash balance	Higher estimates of loans not expected to be repaid lowers principal repayments. These transactions are not included in the fiscal balance or underlying cash balance as they involve the exchange of one financial asset (loan) for another (cash).
Public debt interest (PDI)	All budget aggregates	The PDI impact is the cost of the change in the government's borrowing requirements to fund the loans. The net headline cash balance impact excluding PDI is used to estimate the proposal's impact on PDI payments.

<sup>1</sup> The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.

<sup>2</sup> This is in accordance with PBO Guidance 02/2015 and the Charter of Budget Honesty Policy Costing Guidelines which specify that costings of proposals that 'involve transactions of financial assets' need to take into account the impact on PDI payments.